

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Lake Township</b>	County <b>Missaukee</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>5/5/06</b>	Date Accountant Report Submitted to State: <b>July 11, 2006</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter and Bishop, P.C.</b>			
Street Address <b>134 W. Harris Street</b>	City <b>Cadillac</b>	State <b>MI</b>	ZIP <b>49601</b>
Accountant Signature 		Date <b>6/12/06</b>	

**LAKE TOWNSHIP, MISSAUKEE COUNTY**

**LAKE CITY, MICHIGAN**

**MARCH 31, 2006**

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-x
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In	
Fund Balances to the Statement of Activities	6
Proprietary Funds	
Statement of Net Assets	7-8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10-11
Fiduciary Funds	
Statement of Fiduciary Net Assets	12
Notes to Financial Statements	13-29
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Funds	30
<b>Financial Statements of Individual Funds</b>	
<b>Major Governmental Funds</b>	
<u>General Fund</u>	
Balance Sheet	31
Schedule of Revenues, Expenditures and Changes In	
Fund Balance - Budget and Actual	32-33
<u>Fire Fund</u>	
Balance Sheet	34
Schedule of Revenues, Expenditures and Changes In	
Fund Balance - Budget and Actual	35
<u>Improvement Revolving Fund</u>	
Balance Sheet	36
Schedule of Revenues, Expenditures and Changes In	
Fund Balance - Budget and Actual	37

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<u>Debt Service Fund – Sewer Project #2</u>	
Balance Sheet	38
Statement of Revenues, Expenditures and Changes In Fund Balance	39
<u>Debt Service Fund – Sewer Project #3</u>	
Balance Sheet	40
Statement of Revenues, Expenditures and Changes In Fund Balance	41
<u>Debt Service Fund – Sewer Project #4</u>	
Balance Sheet	42
Statement of Revenues, Expenditures and Changes In Fund Balance	43
<u>Sewer Fund</u>	
Statement of Net Assets	44-45
Statement of Revenues, Expenses and Changes In Fund Net Assets	46-47
Statement of Cash Flows	48-49
 <b>Agency Fund</b>	
<u>Current Tax Collection Fund</u>	
Statement of Changes in Assets and Liabilities	50
 <b>Other Information</b>	
Statement of 2005 Tax Roll	51-52
Statement of 1993 Bonds Payable	53-54
Letter of Comments and Recommendations	55-56
Letter of Reportable Conditions	57

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Township, Missaukee County, Lake City, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Township, Missaukee County, Lake City, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through x and budgetary comparison information on page 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Township, Missaukee County, Lake City, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

Lake Township, a general law township located in Missaukee County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Lake Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006, along with specific comparative information as required.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$4,559,537. Of this amount, \$462,575 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,029,954 an increase of \$106,287 in comparison with the prior year. About 75.22% is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$5,572 during the fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Townships that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

### **Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Proprietary Funds*** – The Township maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund since it is considered to be a major fund of the Township.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.



LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$4,559,537 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

*Lake Township*  
*Net Assets as of March 31,*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Assets</b>						
Current Assets	\$ 1,487,661	\$ 1,467,465	\$ (101,643)	\$ (121,505)	\$ 1,386,018	\$ 1,345,960
Restricted Assets	0	0	84,563	60,492	84,563	60,492
Non Current Assets						
Capital Assets	201,755	43,666	4,783,884	4,783,884	4,985,639	4,827,550
Less: Accumulated Depreciation	(28,067)	(24,504)	(1,045,009)	(941,242)	(1,073,076)	(965,746)
Total Non Current Assets	173,708	19,162	3,738,875	3,842,642	3,912,563	3,861,804
<b>Total Assets</b>	<b>\$ 1,661,349</b>	<b>\$ 1,486,627</b>	<b>\$ 3,721,795</b>	<b>\$ 3,781,629</b>	<b>\$ 5,383,144</b>	<b>\$ 5,268,256</b>
<b>Liabilities</b>						
Current Liabilities	\$ 4,435	\$ 5,054	\$ 9,172	\$ 8,585	\$ 13,607	\$ 13,639
Long-term Liabilities	810,000	810,000	0	2,700	810,000	812,700
<b>Total Liabilities</b>	<b>814,435</b>	<b>815,054</b>	<b>9,172</b>	<b>11,285</b>	<b>823,607</b>	<b>826,339</b>
<b>Net Assets</b>						
Invested in capital assets						
net of related debt	173,688	19,162	3,588,817	3,687,012	3,762,505	3,706,174
Restricted for Specific Purposes	249,894	174,316	84,563	60,492	334,457	234,808
Unrestricted	423,332	478,095	39,243	22,840	462,575	500,935
<b>Total Net Assets</b>	<b>846,914</b>	<b>671,573</b>	<b>3,712,623</b>	<b>3,770,344</b>	<b>4,559,537</b>	<b>4,441,917</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,661,349</b>	<b>\$ 1,486,627</b>	<b>\$ 3,721,795</b>	<b>\$ 3,781,629</b>	<b>\$ 5,383,144</b>	<b>\$ 5,268,256</b>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$462,575 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The total net assets of the Township increased by \$117,620 or 2.648% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

*Lake Township*  
*Change in Net Assets*  
for the Fiscal Year Ended March 31,

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b><u>Revenues</u></b>						
<b>Program Revenues</b>						
Charges for Services	\$ 7,694	\$ 8,731	\$ 172,968	\$ 213,426	\$ 180,662	\$ 222,157
Capital Grants and Contributions	33,340	35,220	0	0	33,340	35,220
<b>General Revenues</b>						
Property Taxes and Assessments	215,584	204,017	0	0	215,584	204,017
State Shared Revenue	174,410	168,299	0	0	174,410	168,299
Unrestricted Investment Earnings	19,270	9,147	1,879	583	21,149	9,730
Other	952	3,137	6,351	11,130	7,303	14,267
<b>Total Revenues</b>	<b>\$ 451,250</b>	<b>\$ 428,551</b>	<b>\$ 181,198</b>	<b>\$ 225,139</b>	<b>\$ 632,448</b>	<b>\$ 653,690</b>
<b><u>Expenses</u></b>						
Legislative	\$ 23,662	\$ 10,338	\$ 0	\$ 0	\$ 23,662	\$ 10,338
General Government	115,960	125,782	0	0	115,960	125,782
Public Safety	55,802	54,835	0	0	55,802	54,835
Public Works	16,188	43,171	0	0	16,188	43,171
Culture and Recreation	3,615	2,238	0	0	3,615	2,238
Other Functions	18,432	15,446	0	0	18,432	15,446
Debt Service	42,250	50,277	0	0	42,250	50,277
Sewer	0	0	238,919	258,799	238,919	258,799
<b>Total Expenses</b>	<b>\$ 275,909</b>	<b>\$ 302,087</b>	<b>\$ 238,919</b>	<b>\$ 258,799</b>	<b>\$ 514,828</b>	<b>\$ 560,886</b>
Change in Net Assets	\$ 175,341	\$ 126,464	\$ (57,721)	\$ (33,660)	\$ 117,620	\$ 92,804
NET ASSETS – Beginning of Year	671,573	545,109	3,770,344	3,804,004	4,441,917	4,349,113
NET ASSETS – End of Year	<u>\$ 846,914</u>	<u>\$ 671,573</u>	<u>\$ 3,712,623</u>	<u>\$ 3,770,344</u>	<u>\$ 4,559,537</u>	<u>\$ 4,441,917</u>

### Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$175,341 or 26.11% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Lake Township comes from property taxes. The Township levied a millage for fire protection, in addition to the operating millage, this fiscal year. The Township levied 1.4869 mills for operating purposes, and 0.4616 mills for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation. In 2006, the amount of state shared revenue received by the Township trended upward.

Capital grants represent grant dollars, whether federal, state, or local, that the Township has secured in order to assist in capital asset construction and infrastructure improvement within the Township. The contributions received during the current fiscal year represents special assessments and related interest used by the Township for sewer purposes.

The Township's governmental activities expenses are dominated by general governmental expenses that total 42.03% of total expenses. The Township spent \$115,960 in fiscal year 2006 on general administrative expenses. Public safety represented the next largest expense at \$55,802 followed by debt service at \$42,250, these represent 20.22% and 15.31% respectively.

**Business-Type Activities**

The Township utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the Township. These charges for services totaled \$172,968 for 2006. Expenses for depreciation represent the largest portion of the Sewer Fund expenses at \$103,767 followed by salaries at \$51,233, these represent 43.43% and 21.44% respectively.

Sewer operations experienced a 1.531% decrease in net assets.

The Sewer Fund is the Township's only Business-Type activity.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of Lake Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Lake Township's governmental funds reported combined ending fund balances of \$1,029,954. Approximately 75.22% of this total amount (\$774,749) constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

**General Fund** – The General Fund decreased its fund balance by \$8,029 which brings the fund balance to \$225,067. Of the General Fund's fund balance, \$225,067 is unreserved. Property tax revenues increased by 6.502% or \$9,961. State shared revenues increased by \$5,683 from the prior year. This represents a 3.475% increase.

**Fire Fund** – The Fire Fund decreased its fund balance by \$912 which brings the fund balance to \$45,908. This balance is reserved and must be used for fire protection.

The Township levied a fire millage on the 2005 tax roll. This resulted in \$50,647 in tax related revenues during the current fiscal year.

**Improvement Revolving Fund** – The Improvement Revolving Fund increased its fund balance by \$37,040 which brings the fund balance to \$549,682. The balance is designated to be used for Township improvements.

There were no expenditures and the only revenue was interest income. During the prior year, there were no expenditures and the only revenue was interest income.

**Proprietary Fund** The Township's proprietary fund provides the same information as the government-wide statements.

**Sewer Fund** – The Sewer Fund ended the fiscal year with a decrease in net assets of \$57,721. This is due largely to the deduction of depreciation expense on the Fund's capital assets. The unrestricted net assets actually increased \$16,403 also due mainly to the deduction of depreciation expense. Net assets invested in capital assets, net of related debt decreased by \$98,195. A positive change in cash flows illustrates that actual cash inflows are higher than cash outflows.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental and business-type activities as of March 31, 2006 amounted to \$3,912,563 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 1.31% entirely in the governmental activities.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2006

*Lake Township*  
*Capital Assets as of March 31,*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 16,000	\$ 16,000	\$ 0	\$ 0	\$ 16,000	\$ 16,000
Buildings	27,666	27,666	0	0	27,666	27,666
Infrastructure	158,089	0	0	0	158,089	0
Improvements other than Buildings	0	0	4,713,258	4,713,258	4,713,258	4,713,258
Equipment, Furniture and Fixtures	0	0	70,626	70,626	70,626	70,626
	201,755	43,666	4,783,884	4,783,884	4,985,639	4,827,550
Less Accumulated Depreciation	28,067	24,504	1,045,009	941,242	1,073,076	965,746
Net Capital Assets	\$ 173,688	\$ 19,162	\$ 3,738,875	\$ 3,842,642	\$3,912,563	\$ 3,861,804

*Major capital asset events during the current fiscal year included the following:*

- ◆ Paving Lotan Road.
- ◆ Paving Crooked Lake Road.
- ◆ Paving Round Lake Road.

**Long-Term Debt.** Lake Township has special assessment bonds payable which will be funded by special assessment income.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lake Township at 8105 Kelly Road, Lake City, MI 49651.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN  
STATEMENT OF NET ASSETS  
MARCH 31, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS
<u>ASSETS</u>			
Cash	\$ 799,907	\$ 21,828	\$ 821,735
Receivables			
Taxes	20,859	0	20,859
Accounts	0	28,684	28,684
Accrued Interest	9,156	0	9,156
Special Assessments	457,345	0	457,345
External Parties (Fiduciary Funds)	7,143	0	7,143
Due from Other Governments	41,096	0	41,096
Internal Balances	152,155	(152,155)	0
Total Current Assets	1,487,661	(101,643)	1,386,018
<u>RESTRICTED ASSETS</u>			
Cash	0	84,563	84,563
<u>CAPITAL ASSETS</u>			
Land and Land Improvements	16,000	0	16,000
Buildings	27,666	0	27,666
Infrastructure	158,089	0	158,089
Improvements Other Than Buildings	0	4,713,258	4,713,258
Equipment, Furniture and Fixtures	0	70,626	70,626
	201,755	4,783,884	4,985,639
Less Accumulated Depreciation	(28,067)	(1,045,009)	(1,073,076)
Net Capital Assets	173,688	3,738,875	3,912,563
<b>TOTAL ASSETS</b>	<b>1,661,349</b>	<b>3,721,795</b>	<b>5,383,144</b>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	567	1,684	2,251
Payroll Withholdings	418	95	513
Accrued Interest Payable	3,450	7,393	10,843
Total Current Liabilities	4,435	9,172	13,607
<u>LONG-TERM LIABILITIES</u>			
Debt Service Bonds Payable	810,000	0	810,000
<b>TOTAL LIABILITIES</b>	<b>814,435</b>	<b>9,172</b>	<b>823,607</b>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	173,688	3,588,817	3,762,505
Restricted for Specific Purposes	249,894	84,563	334,457
Unrestricted	423,332	39,243	462,575
<b>TOTAL NET ASSETS</b>	<b>\$ 846,914</b>	<b>\$ 3,712,623</b>	<b>\$ 4,559,537</b>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR	OPERATING	CAPITAL	GOVERNMENTAL	BUSINESS-TYPE	TOTALS
		SERVICES	GRANTS AND	GRANTS AND	ACTIVITIES	ACTIVITIES	
			CONTRIBUTIONS	CONTRIBUTIONS			
<u>PRIMARY GOVERNMENT</u>							
<u>GOVERNMENTAL ACTIVITIES</u>							
Legislative	\$ 23,662	\$ 0	\$ 0	\$ 0	\$ (23,662)	\$ 0	\$ (23,662)
General Government	115,960	7,694	0	0	(108,266)	0	(108,266)
Public Safety	55,802	0	0	0	(55,802)	0	(55,802)
Public Works	16,188	0	0	0	(16,188)	0	(16,188)
Culture and Recreation	3,615	0	0	0	(3,615)	0	(3,615)
Other Functions	18,432	0	0	0	(18,432)	0	(18,432)
Debt Service	42,250	0	0	33,340	(8,910)	0	(8,910)
Total Governmental Activities	275,909	7,694	0	33,340	(234,875)	0	(234,875)
<u>BUSINESS-TYPE ACTIVITIES</u>							
Sewer System	238,919	172,968	0	0	0	(65,951)	(65,951)
TOTAL	\$ 514,828	\$ 180,662	\$ 0	\$ 33,340	(234,875)	(65,951)	(300,826)
<u>GENERAL REVENUES</u>							
Taxes					215,584	0	215,584
State Shared Revenue					174,410	0	174,410
Unrestricted Investment Earnings					19,270	1,879	21,149
Other					952	6,351	7,303
Total General Revenues and Transfers					410,216	8,230	418,446
Change in Net Assets					175,341	(57,721)	117,620
<u>NET ASSETS</u> - Beginning of Year					671,573	3,770,344	4,441,917
<u>NET ASSETS</u> - End of Year					\$ 846,914	\$ 3,712,623	\$ 4,559,537

The accompanying notes are an integral part of the financial statements.



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2006

	GENERAL FUND	FIRE FUND	IMPROVEMENT REVOLVING FUND	SEWER PROJECT #2	SEWER PROJECT #3	SEWER PROJECT #4	TOTALS
<u>ASSETS</u>							
Cash	\$ 159,066	\$ 40,967	\$ 345,468	\$ 6,043	\$ 18,372	\$ 229,991	\$ 799,907
Taxes Receivable	15,918	4,941	0	0	0	0	20,859
Accrued Interest Receivable	0	0	9,156	0	0	0	9,156
Special Assessments Receivable	0	0	0	8,120	28,426	420,799	457,345
Advances to Other Funds	732	0	195,058	0	0	0	195,790
Due to Other Funds	9,382	0	0	0	0	0	9,382
Due from Other Governments	41,096	0	0	0	0	0	41,096
TOTAL ASSETS	<u>\$ 226,194</u>	<u>\$ 45,908</u>	<u>\$ 549,682</u>	<u>\$ 14,163</u>	<u>\$ 46,798</u>	<u>\$ 650,790</u>	<u>\$ 1,533,535</u>
<u>LIABILITIES AND FUND BALANCE</u>							
<u>LIABILITIES</u>							
Accounts Payable	\$ 567	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 567
Payroll Withholdings	418	0	0	0	0	0	418
Accrued Interest Payable	0	0	0	0	1,762	0	1,762
Advances from Other Funds	0	0	0	732	45,000	0	45,732
Due to Other Funds	142	0	0	0	0	0	142
Deferred Revenue	0	0	0	8,120	28,426	418,414	454,960
	<u>1,127</u>	<u>0</u>	<u>0</u>	<u>8,852</u>	<u>75,188</u>	<u>418,414</u>	<u>503,581</u>
<u>FUND BALANCE</u>							
Reserved for:							
Fire Protection	0	45,908	0	0	0	0	45,908
Debt Retirement - (Deficit)	0	0	0	5,311	(28,390)	232,376	209,297
Unreserved							
Designated for							
Township Improvements	0	0	549,682	0	0	0	549,682
Undesignated	225,067	0	0	0	0	0	225,067
Total Fund Balance	<u>225,067</u>	<u>45,908</u>	<u>549,682</u>	<u>5,311</u>	<u>(28,390)</u>	<u>232,376</u>	<u>1,029,954</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 226,194</u>	<u>\$ 45,908</u>	<u>\$ 549,682</u>	<u>\$ 14,163</u>	<u>\$ 46,798</u>	<u>\$ 650,790</u>	<u>\$ 1,533,535</u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$ 1,029,954
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Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	16,000	
Buildings	27,666	
Infrastructure	158,089	
Accumulated Depreciation	<u>(28,067)</u>	173,688

Other long-term assets are not available to pay for current period  
expenditures and therefore are not reported in the funds

Special Assessment Receivables	454,960
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Long-term liabilities are not due and payable in the current period  
and therefore are not reported in the funds.

Debt Service Bonds Payable	(810,000)	
Accrued Interest Payable	<u>(1,688)</u>	<u>(811,688)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 846,914</u>
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The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	FIRE FUND	IMPROVEMENT REVOLVING FUND	SEWER PROJECT #2	SEWER PROJECT #3	SEWER PROJECT #4	TOTALS
<u>REVENUES</u>							
Taxes	\$ 165,411	\$ 50,647	\$ 0	\$ 0	\$ 0	\$ 0	\$ 216,058
State Grants	174,410	0	0	0	0	0	174,410
Charges for Services	7,694	0	0	0	0	0	7,694
Interest and Rents	5,009	121	12,040	17	46	2,037	19,270
Other Revenues	952	0	0	1,681	7,634	109,023	119,290
Total Revenues	353,476	50,768	12,040	1,698	7,680	111,060	536,722
<u>EXPENDITURES</u>							
Legislative	23,662	0	0	0	0	0	23,662
General Government	115,564	0	0	0	0	0	115,564
Public Safety	4,122	51,680	0	0	0	0	55,802
Public Works	171,110	0	0	0	0	0	171,110
Culture and Recreation	3,615	0	0	0	0	0	3,615
Other Functions	18,432	0	0	0	0	0	18,432
Debt Service	0	0	0	0	925	41,325	42,250
Total Expenditures	336,505	51,680	0	0	925	41,325	430,435
Excess (Deficiency) of Revenues Over Expenditures	16,971	(912)	12,040	1,698	6,755	69,735	106,287
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers In	0	0	25,000	0	0	0	25,000
Transfers Out	(25,000)	0	0	0	0	0	(25,000)
Total Other Financing Sources (Uses)	(25,000)	0	25,000	0	0	0	0
Net Change in Fund Balance	(8,029)	(912)	37,040	1,698	6,755	69,735	106,287
<u>FUND BALANCE -</u>							
Beginning of Year - (Deficit)	233,096	46,820	512,642	3,613	(35,145)	162,641	923,667
<u>FUND BALANCE -</u>							
End of Year - (Deficit)	\$ 225,067	\$ 45,908	\$ 549,682	\$ 5,311	\$ (28,390)	\$ 232,376	\$1,029,954

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 106,287
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(3,563)
Capital Outlay	158,089
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued Interest Payable - Beginning of Year	1,688
Accrued Interest Payable - End of Year	(1,688)
Under modified accrual basis of accounting, revenue is recognized when measurable and certain. The entity wide statements recognize revenue when earned.	
Special assessment revenue previously recognized when earned for the entity wide statements.	(84,998)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in personal property tax revenue deferred using the modified accrual method	<u>(474)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 175,341</u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF NET ASSETS

MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>ASSETS</u>	<u>SEWER FUND</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 21,828
Accounts Receivable		28,684
Due from Other Funds		<u>142</u>
Total Current Assets		<u>50,654</u>
<u>RESTRICTED ASSETS</u>		
Cash		<u>84,563</u>
<u>CAPITAL ASSETS</u>		
Machinery and Equipment		70,626
Improvements Other Than Buildings		<u>4,713,258</u>
		4,783,884
Less Accumulated Depreciation		<u>1,045,009</u>
Net Capital Assets		<u>3,738,875</u>
TOTAL ASSETS		<u><u>\$ 3,874,092</u></u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF NET ASSETS

MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 1,684
Payroll Withholdings	95
Accrued Interest Payable	7,393
Advances from Other Funds	150,058
Due to Other Funds	<u>2,239</u>
 TOTAL LIABILITIES	 <u>161,469</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	3,588,817
Restricted	84,563
Unrestricted	<u>39,243</u>
 Total Net Assets	 <u>3,712,623</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 3,874,092</u></u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 172,968
Other Revenue	6,351
	<u>179,319</u>
 <u>OPERATING EXPENSES</u>	
Administration and General	15,816
Plant	<u>219,795</u>
 Total Operating Expenses	<u>235,611</u>
 Operating Income (Loss)	<u>(56,292)</u>
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	1,879
Interest Expense	<u>(3,308)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,429)</u>
 Change in Net Assets	(57,721)
 <u>NET ASSETS</u> - Beginning of Year	<u>3,770,344</u>
 <u>NET ASSETS</u> - End of Year	<u><u>\$ 3,712,623</u></u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 159,574
Cash Payments to Suppliers for Goods and Services	(77,914)
Cash Payments to Employees for Services	(51,233)
Other Operating Revenues	<u>1,951</u>
Net Cash Provided by Operating Activities	<u>32,378</u>
Cash Flows from Capital and Related Financing Activities:	
Principal Payments	(5,572)
Interest Expense Paid	<u>(307)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,879)</u>
Cash Flows from Investing Activities:	
Interest Received	<u>1,879</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,378
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>78,013</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 106,391</u></u>

The accompanying notes are an integral part of the financial statements.



LAKE TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	<u>\$ (56,292)</u>
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	103,767
(Increase) Decrease in Current Assets	
Accounts Receivable	(17,652)
Due From Other Funds	(142)
Increase (Decrease) in Current Liabilities	
Accounts Payable	363
Payroll Withholdings	95
Due to Other Funds	<u>2,239</u>
Total Adjustments	<u>88,670</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 32,378</u></u>

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2006

	<u>ASSETS</u>	<u>AGENCY</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 18,251
<u>LIABILITIES</u>		
Due to Other Governments		\$ 11,108
Due to Other Funds		7,143
Total Liabilities		\$ 18,251

The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Lake Township is a general law township located in Missaukee County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

The Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lake Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

The *Improvement Revolving Fund* accounts for revenue sources that are designated for improvements in the Township.

The *Sewer Project #2 Debt Service Fund* accounts for the servicing of long-term debt on Sewer Project #2 that is not being financed by proprietary or nonexpendable trust funds.

The *Sewer Project #3 Debt Service Fund* accounts for the servicing of long-term debt on Sewer Project #3 that is not being financed by proprietary or nonexpendable trust funds.

The *Sewer Project #4 Debt Service Fund* accounts for the servicing of long-term debt on Sewer Project #4 that is not being financed by proprietary or nonexpendable trust funds.

Lake Township reports the following major proprietary fund:

The *Sewer Fund* records financial activity of the Township's sewer system.

Additionally Lake Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

The Treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law. The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in context of managing an overall portfolio.

The prior approval of the Township Board, shall be required for the Treasurer to invest in any other lawful investment instruments. The Township Board's standard of prudence shall be the "fiduciary" standard, which shall be applied in context of managing an overall portfolio. The Township Board may authorize the Treasurer to invest in the following:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Repurchase agreements consisting of instruments listed above.

Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either or the following:

- (1) The purchase of securities on a when-issued or delayed delivery basis.
- (2) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
- (3) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

Obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.110 to 129.118.

The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141. to 129.150.

## ***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Lake Township totaled \$109,644,934, on which ad valorem taxes levied consisted of 1.4869 mills for Lake Township operating purposes, and 0.4616 mills for Lake Township fire protection. These levies raised approximately \$163,165 for operating purposes, and \$50,647 for fire protection.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	20
Vehicles	5
Equipment	5-10

Lake Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

**5. *Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**8. *Restricted Assets***

The \$84,563 restricted assets in the Sewer Fund represent monies required to be set aside and accounted for separately by provisions of the sewer rate ordinance and sanitary drain operation agreement.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 24, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund	\$ 300,990	\$	336,505
Fire Fund	46,000		51,680

These overages were funded by greater than anticipated revenues and available fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are all on deposit with Chemical Bank West in Lake City, Michigan and with Fifth Third Bank in Cadillac, Michigan.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, of the government's bank balance of \$1,095,202, \$524,985 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

	General	Fire	Improvement Revolving	Sewer #2	Sewer #3	Sewer #4	Total
Receivables							
Taxes	\$ 15,918	\$ 4,941	\$ 0	\$ 0	\$ 0	\$ 0	\$ 20,859
Accrued Interest	0	0	9,156	0	0	0	9,156
Due from Other Governments	41,096	0	0	0	0	0	41,096
Special Assessments							
Current	0	0	0	0	0	2,385	2,385
Deferred	0	0	0	8,120	28,426	418,414	454,960
	<u>\$ 57,014</u>	<u>\$ 4,941</u>	<u>\$ 9,156</u>	<u>\$ 8,120</u>	<u>\$ 28,426</u>	<u>\$ 420,799</u>	<u>\$ 528,456</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Revenue	
	Unavailable	Unearned
Special assessment receivables (Debt Service Funds)	<u>\$ 454,960</u>	<u>\$ 0</u>

## B. Capital Assets

### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 16,000	\$ 0	\$ 0	\$ 16,000
Capital assets, being depreciated				
Buildings	27,666	0	0	27,666
Infrastructure	0	158,089	0	158,089
Total capital assets, being depreciated	27,666	158,089	0	185,755

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Less accumulated depreciation for:

Buildings	24,504	396	0	24,900
Infrastructure	0	3,167	0	3,167
Total accumulated depreciation	24,504	3,563	0	28,067
Total capital assets, being depreciated, net	3,162	154,526	0	157,688
Governmental activities capital assets, net	\$ 19,162	\$ 154,526	\$ 0	\$ 173,688

Business-Type Activities

Capital assets, being depreciated

Improvements other than buildings	\$ 4,713,258	\$ 0	\$ 0	\$ 4,713,258
Machinery and equipment	70,626	0	0	70,626
Total capital assets, being depreciated	4,783,884	0	0	4,783,884

Less accumulated depreciation for:

Improvements other than buildings	920,529	95,545	0	1,016,074
Machinery and equipment	20,713	8,222	0	28,935
Total accumulated depreciation	941,242	103,767	0	1,045,009
Business-type activities capital assets, net	\$ 3,842,642	\$ (103,767)	\$ 0	\$ 3,738,875

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:  
General Government

\$ 3,563

Business-type activities:  
Sewer

\$ 103,767

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 10,114	\$ 142
Special Revenue Funds		
Improvement Revolving	195,058	0
Debt Service Funds		
Sewer Project #2	0	732
Sewer Project #3	0	45,000
Enterprise Funds		
Sewer	142	152,297
Fiduciary Funds		
Current Tax Collection Fund	0	7,143
	<u>\$ 205,314</u>	<u>\$ 205,314</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers as of March 31, 2006, were:

	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
<u>Primary Government</u>		
General Fund	\$ 0	\$ 25,000
Improvement Revolving Fund	25,000	0
	<u>\$ 25,000</u>	<u>\$ 25,000</u>

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Long-Term Debt**

The following is a summary of the long-term debt transactions of the Township for the year ended March 31, 2006:

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

	<u>SPECIAL ASSESSMENT BONDS</u>
Debt Payable at April 1, 2005	\$ 810,000
New Debt Incurred	0
Debt Retired	<u>0</u>
Debt Payable at March 31, 2006	\$ <u>810,000</u>
Due within one year	\$ <u><u>0</u></u>

The Township's long-term debt consists of the following:

Special Assessment Bonds

1993 Missaukee Sanitary Drainage District No. 2 Drain Bonds; due in annual installments of \$115,000 to \$240,000 each May 1; interest at 5.00%	\$ <u><u>810,000</u></u>
---	--------------------------

The annual requirements to amortize debt outstanding as of March 31, 2006, are as follows:

Year Ending March 31,	Principal	Interest	Total
2007	\$ 0	\$ 40,500	\$ 40,500
2008	0	40,500	40,500
2009	115,000	37,625	152,625
2010	225,000	29,125	254,125
2011	230,000	17,750	247,750
2012	240,000	6,000	246,000
	<u>\$ 810,000</u>	<u>\$ 171,500</u>	<u>\$ 981,500</u>

Business-Type Activities:

	<u>NOTES</u>
Debt Payable at April 1, 2005	\$ 5,572
New Debt Incurred	0
Debt Retired	<u>(5,572)</u>
Debt Payable at March 31, 2005	\$ <u><u>0</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**F. Fund Balance Reserves and Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Special Revenue Funds

Special Purposes

\$ 45,908

Debt Service Funds

Debt Service

203,986

\$ 249,894

FUND BALANCE

Reserved

Special Revenue Funds

Fire Fund

Fire Protection

\$ 45,908

Debt Service Funds

Reserved for Debt Service

Sewer Project

209,297

Designated

Improvement Revolving Fund

Designated for Township Improvements

549,682

TOTAL FUND BALANCE

RESERVATIONS AND DESIGNATIONS

\$ 804,887

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Debt Service Fund - Sewer Project #2**

A special assessment roll was levied July 1, 1985, to generate monies to finance the construction of an addition to the Missaukee Sanitary Drain No. 1 and Branches Drainage District. The total amount of the roll was \$237,100. On June 14, 1986, the special assessment roll was revised and increased to \$262,350 due to an increase in the basic charge per buildable lot and an increase in the connection charge. Each assessment is due and payable over a period of twenty years with interest at 9.20%.

**C. Debt Service Fund - Sewer Project #3**

A special assessment roll was levied December 1, 1990 to generate monies to finance the construction of an addition to the Missaukee Sanitary Drain No. 1 and Branches Drainage District. The total amount of the roll was \$634,225. Each assessment is due and payable over a period of twenty years with interest at 8.00%.

**D. Debt Service Fund - Sewer Project #4**

A special assessment roll was levied in July of 1992 to generate monies to finance the construction of the Missaukee Sanitary Drain No. 2. The total amount of the roll was \$3,625,938. Each assessment is due and payable over a period of twenty years with interest of 6.20%.

**E. Lake Missaukee Area Fire Authority**

The Lake Missaukee Area Fire Authority is a joint venture by and between the City of Lake City and the townships of Caldwell, Forest, Lake, Pioneer, and Reeder. This joint venture was created to provide fire protection for the listed governments. Each municipality pays an annual base amount equal to one-half of one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the Township pays \$450 per fire run within the Township.

In addition to the annual contribution, each township is required to contribute monies in order to construct a fire station and purchase fire equipment.

For the year ended March 31, 2006, the Township contributed a total of \$55,030 to the Fire Authority, of which \$3,350 was for fire runs within the Township.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

The following financial information was taken from the Fire Authority's March 31, 2005 audited financial statements:

Total Net Assets	\$ 479,585
Net Assets Invested in Capital Assets Net of Related Debt	460,976
Fund Balance – Unreserved	18,609
Total Revenue	126,373
Total Expenditures	277,140
Proceeds from Issuance of Debt	100,000
Net Increase (Decrease) in Fund Balance	(50,767)

A copy of these audited financial statements may be obtained upon request from the Fire Authority Treasurer.

**F. Retirement Plan**

The Township has a defined contribution pension plan with Municipal Retirement Systems, Inc., which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date after the employee reaches age 18. An employee's normal retirement date is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan is commenced.

The formula for determining contributions is based on an employee's annual compensation. Annual compensation is based on compensation which coincides with the calendar year coinciding with or ending within the plan year. Plan year is April 1st to March 31st of the following year. The Township has elected to contribute 12% of compensation to the plan annually. Past service credit is calculated as 3% of current compensation for each year of past service to a maximum of 10 years.

Township contributions to the plan for 2005-06 plan year amounted to \$10,484. Of the \$10,484 in contributions, \$5,693 was paid out of the Sewer Fund. In addition, the Township paid \$180 in service fees. Total wages for those covered under the plan was \$86,196 and total wages for the employees including non-covered payroll was \$101,162.

**G. Township Obligation for Special Assessment Debts**

The Township has special assessment bonds payable totaling \$810,000. In the event that money required to pay such debt is not collected from special assessments assessed against property owners, the Township is obligated to make payment from its own funds. The Township currently has cash and investments totaling \$254,406 to be used for retirement of these bonds. This amount is on deposit in the Special Assessment Debt Retirement Funds.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**H. Financing Arrangements**

On December 29, 2004, Lake Township cosigned on a loan from Chemical Bank West in the amount of \$100,000. This loan is the responsibility of the Lake Missaukee Area Fire Authority. The loan was used to purchase a new fire truck which is collateral for the loan. Payments are due annually beginning June 5, 2005, in installments of \$21,711 including interest at 3.49%. The loan is due in full by June 1, 2009. In the event of default by the Fire Authority, the Township would potentially be liable for the unpaid balance on the loan. The assets and debt associated with the asset are not shown on the Township records. Both will be accounted for in the Fire Authority's records. No liability has been recorded as of year end, as it is unlikely that the Township will need to disburse any funds.

**I. Statement of Cash Flows**

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

**J. Due from Other Governments**

Amounts due from other governments consists of \$41,096 in state-shared revenues.

**K. Deficit Fund Balance due to Application of "60 day rule"**

The Debt Service Fund – Sewer Project #3 has a technical deficit balance due to the application of the 60 day rule for revenue recognition on the modified accrual basis of accounting. The fund actually has deferred special assessment receivables yet to be collected in amounts sufficient to cover the deficit if they had been reported as revenue instead of deferred revenue.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND				FIRE FUND				IMPROVEMENT REVOLVING			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>												
Taxes	\$ 150,000	\$ 150,000	\$ 165,411	\$ 15,411	\$ 46,000	\$ 46,000	\$ 50,647	\$ 4,647	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	160,000	160,000	174,410	14,410	0	0	0	0	0	0	0	0
Charges for Services	900	900	7,694	6,794	0	0	0	0	0	0	0	0
Interest and Rents	2,000	2,000	5,009	3,009	100	100	121	21	3,000	3,000	12,040	9,040
Other Revenues	8,000	8,000	952	(7,048)	0	0	0	0	0	0	0	0
Total Revenues	320,900	320,900	353,476	32,576	46,100	46,100	50,768	4,668	3,000	3,000	12,040	9,040
<u>EXPENDITURES</u>												
Legislative												
Township Board	14,000	23,662	23,662	0	0	0	0	0	0	0	0	0
General Government												
Supervisor	12,203	12,203	11,348	855	0	0	0	0	0	0	0	0
Election	4,500	4,500	754	3,746	0	0	0	0	0	0	0	0
Assessor	42,000	44,016	42,188	1,828	0	0	0	0	0	0	0	0
Legal Fees	10,000	1,612	1,197	415	0	0	0	0	0	0	0	0
Clerk	15,500	15,500	12,854	2,646	0	0	0	0	0	0	0	0
Board of Review	2,500	2,500	1,740	760	0	0	0	0	0	0	0	0
Treasurer	32,187	32,187	28,235	3,952	0	0	0	0	0	0	0	0
Building and Grounds	5,000	5,000	4,035	965	0	0	0	0	0	0	0	0
Cemetery	10,400	10,400	5,805	4,595	0	0	0	0	0	0	0	0
Conservation Activities	9,000	9,000	7,408	1,592	0	0	0	0	0	0	0	0
Public Safety	10,500	10,500	4,122	6,378	46,000	46,000	51,680	(5,680)	0	0	0	0
Public Works	99,000	102,500	171,110	(68,610)	0	0	0	0	0	0	0	0
Culture and Recreation	4,200	4,200	3,615	585	0	0	0	0	0	0	0	0
Other Functions	15,000	21,210	18,432	2,778	0	0	0	0	0	0	0	0
Contingency	792	2,000	0	2,000	0	0	0	0	0	0	0	0
Total Expenditures	286,782	300,990	336,505	(35,515)	46,000	46,000	51,680	(5,680)	0	0	0	0
Excess (Deficiency) of Revenues Over Expenditures	34,118	19,910	16,971	(2,939)	100	100	(912)	(1,012)	3,000	3,000	12,040	9,040
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In	0	0	0	0	0	0	0	0	10,000	10,000	25,000	15,000
Transfers Out	(10,000)	(10,000)	(25,000)	(15,000)	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(10,000)	(10,000)	(25,000)	(15,000)	0	0	0	0	10,000	10,000	25,000	15,000
Net Change in Fund Balance	24,118	9,910	(8,029)	(17,939)	100	100	(912)	(1,012)	13,000	13,000	37,040	24,040
<u>FUND BALANCE</u> - Beginning of Year	150,000	150,000	233,096	83,096	46,000	46,000	46,820	820	212,000	212,000	512,642	300,642
<u>FUND BALANCE</u> - End of Year	\$ 174,118	\$ 159,910	\$ 225,067	\$ 65,157	\$ 46,100	\$ 46,100	\$ 45,908	\$ (192)	\$ 225,000	\$ 225,000	\$ 549,682	\$ 324,682

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GENERAL FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 159,066
Taxes Receivable	15,918
Advances to Other Funds	732
Due from Other Funds	9,382
Due from Other Governments	<u>41,096</u>
 TOTAL ASSETS	 <u><u>\$ 226,194</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 567
Payroll Withholdings	418
Due to Other Funds	<u>142</u>
 Total Liabilities	 <u>1,127</u>

FUND BALANCE

Balance	
Unreserved	<u>225,067</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 226,194</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes	\$ 150,000	\$ 165,411
State Grants	160,000	174,410
Charges for Services	900	7,694
Interest and Rents	2,000	5,009
Other Revenues	8,000	952
	<hr/>	<hr/>
Total Revenues	320,900	353,476
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Legislative		
Township Board	23,662	23,662
General Government		
Supervisor	12,203	11,348
Election	4,500	754
Assessor	44,016	42,188
Legal Fees	1,612	1,197
Clerk	15,500	12,854
Board of Review	2,500	1,740
Treasurer	32,187	28,235
Building and Grounds	5,000	4,035
Cemetery	10,400	5,805
Conservation Activities	9,000	7,408
Public Safety	10,500	4,122
Public Works	102,500	171,110
Culture and Recreation	4,200	3,615
Other Functions	21,210	18,432
Contingency	2,000	0
	<hr/>	<hr/>
Total Expenditures	300,990	336,505
	<hr/>	<hr/>
Excess (Deficiency) of Revenues		
Over Expenditures	19,910	16,971

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In (Out)		
Township Improvement Revolving Fund	<u>(10,000)</u>	<u>(25,000)</u>
Net Change in Fund Balance	9,910	(8,029)
<u>FUND BALANCE</u> - Beginning of Year	<u>150,000</u>	<u>233,096</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 159,910</u>	<u>\$ 225,067</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

FIRE FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 40,967
Taxes Receivable	<u>4,941</u>
TOTAL ASSETS	<u><u>\$ 45,908</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	<u>\$ 0</u>
<u>FUND BALANCE</u>	
Reserved for Fire Protection	<u>45,908</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 45,908</u></u>



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Taxes	\$ 46,000	\$ 50,647
Interest and Rents		
Interest Earnings	<u>100</u>	<u>121</u>
Total Revenues	46,100	50,768
 <u>EXPENDITURES</u>		
Public Safety		
Aid to Other Government	<u>46,000</u>	<u>51,680</u>
Excess (Deficiency) of Revenues		
Over Expenditures	100	(912)
 <u>FUND BALANCE</u> - Beginning of Year	<u>46,000</u>	<u>46,820</u>
 <u>FUND BALANCE</u> - End of Year	<u>\$ 46,100</u>	<u>\$ 45,908</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 345,468
Accrued Interest Receivable	9,156
Advances to Other Funds	<u>195,058</u>
 TOTAL ASSETS	 <u><u>\$ 549,682</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Designated for Township Improvements	<u>549,682</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 549,682</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Interest		
Interest Earnings	\$ 3,000	\$ 12,040
<u>EXPENDITURES</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	3,000	12,040
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfer In (Out)		
General Fund	<u>10,000</u>	<u>25,000</u>
Net Change in Fund Balance	13,000	37,040
<u>FUND BALANCE</u> - Beginning of Year	<u>212,000</u>	<u>512,642</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 225,000</u>	<u>\$ 549,682</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #2

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 6,043
Special Assessments Receivable	<u>8,120</u>
TOTAL ASSETS	<u><u>\$ 14,163</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Advances from Other Funds	\$ 732
Deferred Revenue	<u>8,120</u>
TOTAL LIABILITIES	8,852

FUND BALANCE

Reserved for Debt Retirement	<u>5,311</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 14,163</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #2  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Interest	
Interest on Earnings	\$ 17
Other Revenues	
Special Assessments Including Interest	<u>1,681</u>
Total Revenues	1,698

EXPENDITURES

Debt Services	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	1,698

<u>FUND BALANCE</u> - Beginning of Year	<u>3,613</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 5,311</u></u>
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #3

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 18,372
Special Assessments Receivable	<u>28,426</u>
TOTAL ASSETS	<u><u>\$ 46,798</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accrued Interest Payable	\$ 1,762
Advances from Other Funds	45,000
Deferred Revenue	<u>28,426</u>

TOTAL LIABILITIES	75,188
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FUND BALANCE

Reserved for Debt Retirement (Deficit)	<u>(28,390)</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 46,798</u></u>
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Interest	
Interest on Earnings	\$        46
Other Revenues	
Special Assessments Including Interest	<u>7,634</u>
Total Revenues	7,680

EXPENDITURES

Debt Services	
Other Interest Expense	<u>925</u>
Excess (Deficiency) of Revenues Over Expenditures	6,755

<u>FUND BALANCE</u> - Beginning of Year - (Deficit)	<u>(35,145)</u>
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<u>FUND BALANCE</u> - End of Year - (Deficit)	<u><u>\$    (28,390)</u></u>
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #4

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 229,991
Special Assessments Receivable	<u>420,799</u>
TOTAL ASSETS	<u><u>\$ 650,790</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Deferred Revenue	\$ 418,414
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FUND BALANCE

Reserved for Debt Retirement	<u>232,376</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 650,790</u></u>
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

DEBT SERVICE FUND - SEWER PROJECT #4  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Interest	
Interest on Earnings	\$ 2,037
Other Revenues	
Special Assessments Including Interest	<u>109,023</u>
Total Revenues	<u>111,060</u>

EXPENDITURES

Debt Services	
Interest on Bonds	40,500
Paying Agent Fees	<u>825</u>
Total Expenditures	<u>41,325</u>
Excess (Deficiency) of Revenues Over Expenditures	69,735

<u>FUND BALANCE</u> - Beginning of Year	<u>162,641</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 232,376</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF NET ASSETS  
MARCH 31, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 21,828
Receivable	
Accounts	28,684
Due from Other Funds	142
Total Current Assets	<u>50,654</u>

RESTRICTED ASSETS

Money Market Accounts	
Consumer Debt Service Fund	60,907
Expansion Fund	23,656
Total Restricted Assets	<u>84,563</u>

CAPITAL ASSETS

Machinery and Equipment	70,626
Sewer System	<u>4,713,258</u>
Total Capital Assets	4,783,884
Less Accumulated Depreciation	<u>1,045,009</u>
Net Capital Assets	<u>3,738,875</u>
 TOTAL ASSETS	 <u>\$ 3,874,092</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF NET ASSETS  
MARCH 31, 2006

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 1,684
Payroll Withholdings	95
Accrued Interest Payable	7,393
Advances From Other Funds	150,058
Due to Other Funds	<u>2,239</u>

TOTAL LIABILITIES	<u>161,469</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	3,588,817
Restricted	84,563
Unrestricted	<u>39,243</u>
Total Net Assets	<u>3,712,623</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,874,092</u></u>
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED MARCH 31, 2006

OPERATING REVENUES

Charges for Services	
Sewer Use Charges	\$ 140,858
Connection Charges	5,425
Trunkage Fees	14,385
Availability Charges	12,300
Other Revenue	
Land Rent	4,400
Reimbursements	1,565
Miscellaneous	386
	<hr/>
Total Operating Revenues	179,319
	<hr/>

OPERATING EXPENSES

Administration and General	
Personal Services	
Salaries and Wages	3,402
Supplies	
Office Supplies	1,992
Other Services and Charges	
Insurance	10,117
Bank Fees	305
Plant	
Personal Services	
Salaries and Wages	47,831
Fringe Benefits	14,864
Supplies	
Operating Supplies	4,026
Other Services and Charges	
Lab Analysis	4,470
Utilities	23,386
Repairs and Maintenance	11,284
Seminars and Training	200

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED MARCH 31, 2006

Contracted Services	8,840
Step Units	605
Miscellaneous	522
Depreciation	<u>103,767</u>
Total Operating Expenses	<u>235,611</u>
Operating Income (Loss)	(56,292)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	1,879
Interest Expense	<u>(3,308)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,429)</u>
Change in Net Assets	(57,721)
<u>NET ASSETS</u> - Beginning of Year	<u>3,770,344</u>
<u>NET ASSETS</u> - End of Year	<u>\$ 3,712,623</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 159,574
Cash Payments to Suppliers for Goods and Services	(77,914)
Cash Payments to Employees for Services	(51,233)
Other Operating Revenues	<u>1,951</u>
Net Cash Provided by Operating Activities	<u>32,378</u>
Cash Flows from Capital and Related Financing Activities:	
Principal Payments	(5,572)
Interest Expense Paid	<u>(307)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(5,879)</u>
Cash Flows from Investing Activities	
Interest Received	<u>1,879</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,378
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>78,013</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 106,391</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

SEWER FUND

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2006

RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	<u>\$ (56,292)</u>
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities	
Depreciation	103,767
(Increase) Decrease in Current Assets	
Accounts Receivable	(17,652)
Due from Other Funds	(142)
Increase (Decrease) in Current Liabilities	
Accounts Payable	363
Payroll Withholdings	95
Due to Other Funds	<u>2,239</u>
Total Adjustments	<u>88,670</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u><u>\$ 32,378</u></u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	ADDITIONS	DEDUCTIONS	3/31/2006
<hr/>				
<u>ASSETS</u>				
Cash	\$ 4,998	\$ 7,169,327	\$ 7,156,074	\$ 18,251
	<hr/>			
<u>LIABILITIES</u>				
Refunds Payable to Taxpayers	\$ 0	\$ 276	\$ 276	\$ 0
Due to Other Governments	0	3,336,679	3,325,571	11,108
Due to Other Funds	4,998	269,348	267,203	7,143
	<hr/>			
TOTAL LIABILITIES	\$ 4,998	\$ 3,606,303	\$ 3,593,050	\$ 18,251
	<hr/>			



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF 2005 TAX ROLL  
MARCH 31, 2006

TAXES ASSESSED

County	\$	813,845	
County - State Education Tax		658,227	
City			
Delinquent Sewer Usage		225	
Township			
Operating		163,165	
Fire		50,644	
Sewer Debt Service		21,772	
Delinquent Sewer Assessment and Usage		24,389	
Schools			
Lake City Area Schools		1,250,866	
McBain Rural Agricultural Schools		180,944	
Intermediate School			
Wexford-Missaukee		654,216	
Lake Missaukee Improvement Board		82,539	
Crooked Lake Improvement Board		17,550	\$ 3,918,382

TAXES COLLECTED

County	742,207	
County - State Education Tax	622,383	
City		
Delinquent Sewer Usage	0	
Township		
Operating	147,246	
Fire	45,703	
Sewer Debt Service	14,040	
Delinquent Sewer Assessment and Usage	22,004	
Schools		
Lake City Area Schools	1,143,158	
McBain Rural Agricultural Schools	137,671	
Intermediate School		
Wexford-Missaukee	590,390	
Lake Missaukee Improvement Board	78,876	
Crooked Lake Improvement Board	15,441	3,559,119

STATEMENT OF 2005 TAX ROLL  
MARCH 31, 2006

County	71,638		
County - State Education Tax	35,844		
City			
Delinquent Sewer Usage	225		
Township			
Operating	15,919		
Fire	4,941		
Sewer Debt Service	7,732		
Delinquent Sewer Assessment and Usage	2,385		
Schools			
Lake City Area Schools	107,708		
McBain Rural Agricultural Schools	43,273		
Intermediate School			
Wexford-Missaukee	63,826		
Lake Missaukee Improvement Board	3,663		
Crooked Lake Improvement Board	2,109	\$	359,263

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF 1993 BONDS PAYABLE  
MARCH 31, 2006

TITLE Missaukee Sanitary Drainage District No. 2 Drain Bonds

PURPOSE The bonds were issued under to provisions of Chapter 20, of Act No. 40 Public Acts of Michigan, 1956, as amended. The bonds were issued to defray the cost of locating, establishing and constructing the Missaukee Sanitary Drain No. 2 in the County of Missaukee.

DATE OF ISSUE July 1, 1993

AMOUNT OF ISSUE \$ 3,625,938

INTEREST RATES 5.00%

BALANCE OUTSTANDING \$ 3,625,938

Amount Redeemed Prior Years	\$ 2,815,938	
Amount Redeemed During Current Year	0	2,815,938

BALANCE OUTSTANDING - March 31, 2006 \$ 810,000

DUE DATES	Requirements		
	Principal	Interest	Total
May 1, 2006	\$ 0	\$ 20,250	\$ 20,250
November 1, 2006		20,250	20,250
May 1, 2007	0	20,250	20,250
November 1, 2007		20,250	20,250
May 1, 2008	115,000	20,250	135,250
November 1, 2008		17,375	17,375
May 1, 2009	225,000	17,375	242,375
November 1, 2009		11,750	11,750
May 1, 2010	230,000	11,750	241,750
November 1, 2010		6,000	6,000
May 1, 2011	240,000	6,000	246,000
	\$ 810,000	\$ 171,500	\$ 981,500

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF 1993 BONDS PAYABLE  
MARCH 31, 2006

PRIOR REDEMPTION

Bonds of this issue maturing in the years 1994 to 2002, inclusive, shall not be subject to redemption prior to maturity. Bonds in multiples of \$5,000 of this issue maturing in the years 2003 to 2011, inclusive, shall be subject to redemption prior to maturity at the option of the District in such order as the District shall determine, on any interest payment date on or after May 1, 2002, at par plus accrued interest to the date fixed for redemption, plus a premium expressed as a percentage of par as follows:

2% of the par value of each bond called for redemption on or after May 1, 2002, but prior to May 1, 2004;

1% of the par value of each bond called for redemption on or after May 1, 2004, but prior to May 1, 2006;

No premium if called for redemption on or after May 1, 2006.

In case less than the full amount of an outstanding bond is presented for redemption, the Bond Registrar, upon presentation of the bond called for redemption, shall register, authenticate and deliver to the registered owner of record new bonds in the principal amount of the portion of the original bond not called for redemption.

The Bonds are transferable only upon the books of the District kept for that purpose at the office of the Bond Registrar by the Registered Owner thereof in person, or by, his attorney duly authorized in writing, upon the surrender of such Bond together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the Registered Owner or his attorney duly authorized in writing, and thereupon a new registered Bond or Bonds in the same aggregate principal amount and of the same interest rate and maturity shall be issued to the transferee in exchange therefore as provided in the resolution authorizing the Bonds, and upon the payment of the charges, if any, therein prescribed.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

During the course of our audit of the basic financial statements of Lake Township for the year ended March 31, 2006, we noted the following items:

Reportable Condition in Internal Controls

As part of our audit of the Township, we considered the internal control structure in order to determine our auditing procedures. We are issuing a separate letter which addresses reportable conditions.

Deficit Fund Balance due to Application of "60 day rule"

The Debt Service Fund-Sewer Project #3 has a technical deficit balance due to the application of the 60 day rule for revenue recognition on the modified accrual basis of accounting. As you can see, the fund actually has deferred special assessment receivables yet to be collected in amounts sufficient to cover the deficit if they had been reported as revenue instead of deferred revenue. We have assisted you in the preparation of your deficit reduction plan to be filed with the Department of Treasury, and believe this explanation will satisfy their department, as they are aware of the 60 day rule.

General Recordkeeping

The accounting records for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the clerk and treasurer for a job well done and encourage them to keep up the fine effort.

While we observed that bills are approved for payment by the Township board, we did not observe evidence of approval for payment on the bills themselves. We suggest that as a method of strengthening internal control the Township consider having a board member sign the bills approved for payment.

Component Units

Improvements boards need to contact the State of Michigan to determine with whom they are a component unit and if they are required to have an audit.

### Credit Card Use

The Township is currently using an Office Max charge card, but the Township has no credit card policy in place. We suggest that the Township adopt a credit card policy to strengthen internal control and comply with state law.

We would like to thank the board for awarding our firm the audit assignment of the Township and to thank the Township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

In planning and performing our audit of the financial statements of Lake Township, Missaukee County, Lake City, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the State make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*